

**HERREID SCHOOL DISTRICT NO. 10-1**

**AUDITED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2011**

# **HERREID SCHOOL DISTRICT NO. 10-1**

## **SCHOOL DISTRICT OFFICIALS**

**JUNE 30, 2011**

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### **Board Members:**

Mark Bentz  
Pete Brandner  
David Kary  
Troy Beck  
Kim Rossow

### **Superintendent:**

Ron Jacobson

### **Business Manager:**

Colleen Rueb

# HERREID SCHOOL DISTRICT NO. 10-1

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**CERTIFIED PUBLIC ACCOUNTANTS**

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LEMMON, SOUTH DAKOTA  
MILLER, SOUTH DAKOTA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

School Board  
Herreid School District No. 10-1  
Herreid, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Herreid School District No. 10-1, Campbell County, South Dakota, as of June 30, 2011, and for the year then ended, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as items 2011-01 through 2011-03 to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Herreid School District's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. We did not audit the School District's responses and, accordingly, we express no opinion on them.

We also noted certain additional matters that we reported to management of the School District in a separate communication dated December 16, 2011.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and the governing board and management of the Herreid School District No. 10-1, South Dakota, and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

*Kahlem, Simthel & Anderson, LLP*

December 16, 2011

**HERREID SCHOOL DISTRICT NO. 10-1**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**JUNE 30, 2011**

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**PRIOR AUDIT FINDINGS:**

2010-01

A material weakness was reported for a lack of segregation of duties for revenues, receivables, payables, equity, trust deposits, inventory, and capital assets. This condition is restated as current audit finding 2011-01.

2010-02

The School District does not have an internal control system designed to provide for the preparation of the annual financial statements in accordance with generally accepted accounting principles (GAAP). As auditors, we were requested to draft the financial statements. This comment has not been corrected and is restated as current audit finding 2011-02.

2010-03

The School District does not have an internal control structure to provide for the recording of all necessary material adjustments. This comment has not been corrected and is restated as current audit finding 2011-03.

**HERREID SCHOOL DISTRICT NO. 10-1**  
**SCHEDULE OF CURRENT AUDIT FINDINGS**  
**JUNE 30, 2011**

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**CURRENT AUDIT FINDINGS:**

**Internal Control-Related Findings - Material Weaknesses:**

2011-01

**Criteria**

Internal control can help a School achieve its performance targets and prevent loss of resources. It can help ensure reliable financial reporting and it can help ensure that the School complies with laws and regulations.

**Condition Found**

A significant deficiency and material weakness was reported for a lack of segregation of duties for revenues, receivables, cash, trust and agency, inventories, payables, capital assets, and equity, which could result in errors not being found in a timely manner.

**Effect**

This comment is the result of the size of the entity which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The Herreid School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues, receivables, cash, trust and agency, inventories, payables, capital assets, and equity. It is not known for how long this comment has been carried forward.

**Recommendation**

The School is aware of this problem and should attempt to provide compensating controls wherever and whenever possible and practical.

**Corrective Action Plan**

The Herreid School District has determined that it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues, receivables, cash, trust and agency, inventories, payables, capital assets, and equity and accepts the risks involved. The Board is aware of the problem and will attempt to provide compensating controls wherever and whenever possible and practical. The Superintendent, Ron Jacobson, is responsible for the corrective action plan for this finding.

2011-02

**Criteria**

An organization's internal control structure should provide for the preparation of financial statements in accordance with generally accepted accounting principles (GAAP).

**Condition Found**

The School does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with generally accepted accounting principles. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

**HERREID SCHOOL DISTRICT NO. 10-1**  
**SCHEDULE OF CURRENT AUDIT FINDINGS**  
**JUNE 30, 2011**  
**(Continued)**

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Effect

This condition may affect the School's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan

Both management and the School Board have been informed of this condition and are confident that the information is accurate and are willing to accept this risk. The Business Manager, Colleen Rueb, is responsible for the corrective action plan for this finding.

2011-03

Criteria

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that accounting records are in accordance with generally accepted accounting principles.

Condition Found

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the School's existing internal controls, and therefore could have resulted in a material misstatement of the School's financial statements.

Effect

This condition may affect the School's ability to record, process, summarize, and report financial statement data consistent with the assertions of management in the financial statements.

Recommendation

This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan

The School District accepts the risks associated with this deficiency. The Board is aware of the problem and will attempt to provide compensating controls wherever and whenever possible and practical. The contact person for this finding is Colleen Rueb, Business Manager.

Closing Conference

The contents of this report were discussed with Colleen Rueb, Business Manager, and Pete Brandner, Board Member, on July 20, 2011.

**KOHLMAN, BIRSCHBACH & ANDERSON, LLP**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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WITH OFFICES IN  
LEMMON, SOUTH DAKOTA  
MILLER, SOUTH DAKOTA

INDEPENDENT AUDITORS' REPORT

School Board  
Herreid School District No. 10-1  
Herreid, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Herreid School District No. 10-1, Campbell County, South Dakota, as of June 30, 2011, and for the year then ended, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Herreid School District No. 10-1, Campbell County, South Dakota, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2011, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Budgetary Comparison Schedules on pages 32 through 35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The School District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

December 16, 2011

*Kohlman, Diemuth & Anderson, LLP*

**HERREID SCHOOL DISTRICT NO. 10-1**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 460,338	\$ 10,338	\$ 470,676
Investments	210,000	-	210,000
Taxes receivable	311,947	-	311,947
Inventories	-	3,000	3,000
Other assets	27,184	405	27,589
Restricted Assets:			
Cash and cash equivalents	16,872	-	16,872
Capital Assets:			
Land, improvements and construction in progress	5,464	-	5,464
Other capital assets, net of depreciation	825,017	2,620	827,637
<b>TOTAL ASSETS</b>	<b><u>\$ 1,856,822</u></b>	<b><u>\$ 16,363</u></b>	<b><u>\$ 1,873,185</u></b>
<b>LIABILITIES:</b>			
Accounts payable	\$ 28,181	\$ -	\$ 28,181
Other current liabilities	83,903	-	83,903
Deferred revenue	310,153	-	310,153
Noncurrent Liabilities:			
Due within one year	4,660	-	4,660
<b>TOTAL LIABILITIES</b>	<b><u>426,897</u></b>	<b><u>-</u></b>	<b><u>426,897</u></b>
<b>NET ASSETS:</b>			
Invested in capital assets	830,481	2,620	833,101
Restricted for:			
Capital outlay purposes	336,141	-	336,141
Special education purposes	6,255	-	6,255
Food service purposes	-	13,743	13,743
Other purposes	16,873	-	16,873
Unrestricted	240,175	-	240,175
<b>TOTAL NET ASSETS</b>	<b><u>1,429,925</u></b>	<b><u>16,363</u></b>	<b><u>1,446,288</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,856,822</u></b>	<b><u>\$ 16,363</u></b>	<b><u>\$ 1,873,185</u></b>

The notes to the financial statements are an integral part of this statement.

**HERREID SCHOOL DISTRICT NO. 10-1**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
<b>Primary Government:</b>						
<b>Governmental Activities:</b>						
Instruction	\$ 855,866	\$ -	\$ 325,567	\$ (530,299)	\$ -	\$ (530,299)
Support services	560,313	11,308	-	(549,005)	-	(549,005)
Cocurricular activities	59,546	10,889	-	(48,657)	-	(48,657)
<b>Total Governmental Activities</b>	<b>1,475,725</b>	<b>22,197</b>	<b>325,567</b>	<b>(1,127,961)</b>	<b>-</b>	<b>(1,127,961)</b>
<b>Business-Type Activities:</b>						
Food service	60,492	34,328	19,047	-	(7,117)	(7,117)
<b>Total Primary Government</b>	<b>\$ 1,536,217</b>	<b>\$ 56,525</b>	<b>\$ 344,614</b>	<b>(1,127,961)</b>	<b>(7,117)</b>	<b>(1,135,078)</b>
<b>General Revenues:</b>						
Taxes:						
Property taxes				628,918	-	628,918
Gross receipts taxes				48,440	-	48,440
Revenue from State Sources:						
State aid				455,432	-	455,432
Revenue from Federal Sources				1,912	-	1,912
Grants and Contributions not						
Restricted to Specific Programs				2,930	-	2,930
Unrestricted Investment Earnings				4,648	8	4,656
Other General Revenues				17,183	-	17,183
Transfers				(10,277)	10,277	-
<b>Total General Revenues and Transfers</b>				<b>1,149,186</b>	<b>10,285</b>	<b>1,159,471</b>
<b>Change in Net Assets</b>				<b>21,225</b>	<b>3,168</b>	<b>24,393</b>
<b>Net Assets - Beginning</b>				<b>1,408,700</b>	<b>13,195</b>	<b>1,421,895</b>
<b>Net Assets - Ending</b>				<b>\$ 1,429,925</b>	<b>\$ 16,363</b>	<b>\$ 1,446,288</b>

The notes to the financial statements are an integral part of this statement.

**HERREID SCHOOL DISTRICT NO. 10-1****BALANCE SHEET****GOVERNMENTAL FUNDS****JUNE 30, 2011**

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 303,595	\$ 134,390	\$ 22,353	\$ 460,338
Investments	10,000	200,000	-	210,000
Taxes receivable - current	235,100	19,752	55,301	310,153
Taxes receivable - delinquent	1,592	66	136	1,794
Accounts receivable, net	3,044	1,688	351	5,083
Due from federal government	5,651	-	-	5,651
Prepaid expenses	16,450	-	-	16,450
Restricted cash and cash equivalents	16,872	-	-	16,872
<b>TOTAL ASSETS</b>	<b><u>\$ 592,304</u></b>	<b><u>\$ 355,896</u></b>	<b><u>\$ 78,141</u></b>	<b><u>\$ 1,026,341</u></b>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 11,583	\$ -	\$ 16,598	\$ 28,181
Contracts payable	74,273	-	-	74,273
Payroll deductions and withholdings and employer matching payable	9,630	-	-	9,630
Deferred revenue	236,692	19,818	55,437	311,947
<b>TOTAL LIABILITIES</b>	<b><u>332,178</u></b>	<b><u>19,818</u></b>	<b><u>72,035</u></b>	<b><u>424,031</u></b>
<b>FUND BALANCES:</b>				
Restricted for:				
Capital outlay purposes	-	336,078	-	336,078
Special education purposes	-	-	6,106	6,106
Athletic purposes	13,403	-	-	13,403
Music education purposes	1,931	-	-	1,931
Veteran's memorial	1,538	-	-	1,538
Assigned to:				
Lunch program	1,626	-	-	1,626
Next year's budget	142,521	-	-	142,521
Unassigned	99,107	-	-	99,107
<b>TOTAL FUND BALANCES</b>	<b><u>260,126</u></b>	<b><u>336,078</u></b>	<b><u>6,106</u></b>	<b><u>602,310</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 592,304</u></b>	<b><u>\$ 355,896</u></b>	<b><u>\$ 78,141</u></b>	<b><u>\$ 1,026,341</u></b>

The notes to the financial statements are an integral part of this statement.

**HERREID SCHOOL DISTRICT NO. 10-1**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

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Total Fund Balances - Governmental Funds	\$ 602,310
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Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	830,481
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Long-term liabilities, including bonds payable and accrued leave payable, are not due and  
payable in the current period and therefore are not reported in the funds.

Accrued leave	<u>\$ 4,660</u>	(4,660)
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Assets, such as taxes receivable (delinquent) and special assessment receivables (current,  
delinquent and deferred), are not available to pay for current period expenditures and  
therefore are deferred in the funds.

Taxes receivable	<u>\$ 1,794</u>	<u>1,794</u>
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Net Assets - Governmental Activities	<u>\$ 1,429,925</u>
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The notes to the financial statements are an integral part of this statement.

	General Fund	Capital Outlay Fund	Special Education Fund	Total Governmental Funds
Support Services:				
Pupils:				
Guidance	3,251	-	-	3,251
Psychological	-	-	6,550	6,550
Speech pathology	-	-	30,825	30,825
Student therapy services	-	-	53,507	53,507
Instructional staff:				
Improvement of instruction	9,488	-	-	9,488
Educational media	18,312	-	-	18,312
General administration:				
Board of education	16,543	-	-	16,543
Executive administration	72,135	-	-	72,135
School administration:				
Office of the principal	7,732	-	-	7,732
Other	7,128	-	-	7,128
Business:				
Fiscal services	41,102	-	-	41,102
Facilities acquisition and construction	-	57,889	-	57,889
Operation and maintenance of plant	111,899	-	-	111,899
Pupil transportation	78,663	-	-	78,663
Special education:				
Administrative costs	-	-	22,730	22,730
Cocurricular Activities:				
Male activities	16,270	-	-	16,270
Female activities	11,648	-	-	11,648
Combined activities	25,579	4,858	-	30,437
Capital Outlay	9,484	53,340	-	62,824
<b>TOTAL EXPENDITURES</b>	<b>1,056,406</b>	<b>125,275</b>	<b>301,458</b>	<b>1,483,139</b>
<b>EXCESS OF REVENUE OVER (UNDER)</b>				
<b>  EXPENDITURES</b>	<b>94,560</b>	<b>(80,390)</b>	<b>9,780</b>	<b>23,950</b>
<b>OTHER FINANCING USES:</b>				
Transfers out	(10,277)	-	-	(10,277)
<b>TOTAL OTHER FINANCING USES</b>	<b>(10,277)</b>	<b>-</b>	<b>-</b>	<b>(10,277)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>84,283</b>	<b>(80,390)</b>	<b>9,780</b>	<b>13,673</b>
<b>FUND BALANCE - BEGINNING</b>	<b>175,843</b>	<b>416,468</b>	<b>(3,674)</b>	<b>588,637</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 260,126</b>	<b>\$ 336,078</b>	<b>\$ 6,106</b>	<b>\$ 602,310</b>

The notes to the financial statements are an integral part of this statement.

**HERREID SCHOOL DISTRICT NO. 10-1**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2011**

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Net Change in Fund Balances - Total Governmental Funds	\$ 13,673
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Amounts reported for governmental activities in the statement of activities  
are different because:

This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government-wide statements.	62,824
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This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.	(55,410)
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In both the government-wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the funds' statements differs from the accounting in the government-wide statements in that the fund financial statements require the amounts to be "available".

This amount reflects the application of both the application period and "availability criteria".	<u>138</u>
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Change in Net Assets of Governmental Activities	<u>\$ 21,225</u>
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The notes to the financial statements are an integral part of this statement.

**HERREID SCHOOL DISTRICT NO. 10-1****BALANCE SHEET  
PROPRIETARY FUNDS****JUNE 30, 2011**

	<u>Enterprise Funds</u> <u>Food Service</u> <u>Fund</u>
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$ 10,338
Accounts receivable, net	405
Inventory of supplies	10
Inventory of stores purchased for resale	1,086
Inventory of donated food	<u>1,904</u>
Total Current Assets	<u>13,743</u>
Capital Assets:	
Machinery and equipment	15,816
Less: accumulated depreciation	<u>(13,196)</u>
Total Noncurrent Assets	<u>2,620</u>
TOTAL ASSETS	<u>\$ 16,363</u>
LIABILITIES	<u>\$ -</u>
NET ASSETS:	
Invested in capital assets	2,620
Unrestricted net assets	<u>13,743</u>
TOTAL NET ASSETS	<u>16,363</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,363</u>

The notes to the financial statements are an integral part of this statement.

**HERREID SCHOOL DISTRICT NO. 10-1**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2011**

	<u>Enterprise Funds</u> <u>Food Service</u> <u>Fund</u>
OPERATING REVENUE:	
Food sales:	
Student	\$ 28,753
Adult	<u>5,575</u>
TOTAL OPERATING REVENUE	<u>34,328</u>
OPERATING EXPENSES:	
Salaries	27,260
Employee benefits	4,796
Purchased services	1,141
Supplies	598
Cost of sales - purchased	22,515
Cost of sales - donated	3,942
Depreciation	<u>240</u>
TOTAL OPERATING EXPENSES	<u>60,492</u>
OPERATING LOSS	<u>(26,164)</u>
NONOPERATING REVENUE:	
Investment earnings	8
State grants	301
Federal grants	14,434
Donated food	<u>4,312</u>
TOTAL NONOPERATING REVENUE	<u>19,055</u>
LOSS BEFORE TRANSFERS	(7,109)
TRANSFERS IN	<u>10,277</u>
CHANGE IN NET ASSETS	3,168
NET ASSETS - BEGINNING	<u>13,195</u>
NET ASSETS - ENDING	<u>\$ 16,363</u>

The notes to the financial statements are an integral part of this statement.

**HERREID SCHOOL DISTRICT NO. 10-1**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2011**

	<u>Enterprise Funds</u> <u>Food Service Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash receipts from customers	\$ 34,328
Cash payments to employees for services	(32,056)
Cash payments to suppliers of goods and services	<u>(24,814)</u>
Net cash used by operating activities	<u>(22,542)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Transfers in	10,277
Operating grants	<u>14,735</u>
Net cash provided by noncapital financing activities	<u>25,012</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Cash received for interest	<u>8</u>
Net cash provided by investing activities	<u>8</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	2,478
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>7,860</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 10,338</u></u>
 <b><u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</u></b>	
<b>OPERATING LOSS</b>	\$ (26,164)
<b>ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED</b>	
<b>BY OPERATING ACTIVITIES:</b>	
Depreciation expense	240
Value of donated commodities used	3,942
Change in assets and liabilities:	
Inventories	<u>(560)</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u><u>\$ (22,542)</u></u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>	
Value of commodities received	<u><u>\$ 4,312</u></u>

The notes to the financial statements are an integral part of this statement.

**HERREID SCHOOL DISTRICT NO. 10-1**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2011**

	Private-Purpose Trust Funds	Agency Funds
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 21,716	\$ 16,406
<b>TOTAL ASSETS</b>	<u>\$ 21,716</u>	<u>\$ 16,406</u>
<b>LIABILITIES:</b>		
Amounts held for others	\$ -	\$ 16,406
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>16,406</u>
<b>NET ASSETS:</b>		
Held in trust for scholarships	<u>21,716</u>	<u>-</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 21,716</u>	<u>\$ 16,406</u>

The notes to the financial statements are an integral part of this statement.

**HERREID SCHOOL DISTRICT NO. 10-1**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2011**

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	<u>Private-Purpose Trust Funds</u>
ADDITIONS:	
Earnings on investments and deposits	<u>\$        391</u>
TOTAL ADDITIONS	<u>            391</u>
DEDUCTIONS:	
Trust deductions for scholarships	<u>            400</u>
TOTAL DEDUCTIONS	<u>            400</u>
CHANGE IN NET ASSETS	(9)
NET ASSETS - BEGINNING	<u>         21,725</u>
NET ASSETS - ENDING	<u><u>\$      21,716</u></u>

The notes to the financial statements are an integral part of this statement.

**HERREID SCHOOL DISTRICT NO. 10-1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the School District conform to generally accepted accounting principles applicable to government entities in the United States of America.

**a. Financial Reporting Entity:**

The reporting entity of the Herreid School District No. 10-1 (School District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The School District participates in a cooperative service unit with seven other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

**b. Basis of Presentation:**

**Government-Wide Financial Statements:**

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or it meets the following criteria:

# HERREID SCHOOL DISTRICT NO. 10-1

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

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### NOTE 1 - (Continued)

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the School District financial reporting entity are described below within their respective fund types:

#### Governmental Funds:

**General Fund** - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the School District, excluding Capital Outlay Fund and Special Education Fund expenditures. The General Fund is always a major fund.

**Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**Capital Outlay Fund** - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

**Special Education Fund** - A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the School District. This fund is financed by grants and property taxes. This is a major fund.

#### Proprietary Funds:

**Enterprise Funds** - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Food Service Fund** - A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

#### Fiduciary Funds:

Fiduciary funds consist of the following sub-categories and are never considered to be major funds:

**Private-Purpose Trust Funds** - Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The School District maintains only the following private-purpose trust fund:

The Adney Scholarship Trust Fund is the only private-purpose trust fund.

**HERREID SCHOOL DISTRICT NO. 10-1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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**NOTE 1 - (Continued)**

**Agency Funds -** Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains agency funds to hold assets as an agent in a trustee capacity for various classes, clubs, and so on.

**c. Measurement Focus and Basis of Accounting:**

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

**Measurement Focus:**

**Government-Wide Financial Statements:**

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

**Fund Financial Statements:**

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

**Basis of Accounting:**

**Government-Wide Financial Statements:**

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

**Fund Financial Statements:**

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the School District is 60 days. The revenues which are accrued at June 30, 2011, are reimbursements for federal program expenditures.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

**HERREID SCHOOL DISTRICT NO. 10-1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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**NOTE 1 - (Continued)**

All proprietary fund and fiduciary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The business-type activities and enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

**d. Capital Assets:**

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

**Government-Wide Financial Statements**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2011 balance of capital assets for governmental activities are all valued at original costs. The total June 30, 2011 balance of capital assets for business-type activities are all valued at original costs.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ -	-----N/A-----	-----N/A-----
Improvements	\$ 2,500	Straight-line	10-20 years
Buildings	\$ 2,500	Straight-line	50 years
Machinery and Equipment	\$ 2,500	Straight-line	4-20 years

Land is an inexhaustible capital asset and is not depreciated.

**Fund Financial Statements:**

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

**HERREID SCHOOL DISTRICT NO. 10-1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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**NOTE 1 - (Continued)**

**e. Long-Term Liabilities:**

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

**f. Program Revenues:**

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the School District's taxpayers or citizenry, as a whole. Program revenues are classified into two categories, as follows:

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

**g. Proprietary Funds Revenue and Expense Classifications:**

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

**h. Cash and Cash Equivalents:**

For the purpose of preparing the Statement of Cash Flows, the School District considers all highly liquid investments and deposits with a term to maturity of three months or less when purchased to be cash equivalents.

**i. Equity Classifications:**

Government-Wide Financial Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**HERREID SCHOOL DISTRICT NO. 10-1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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**NOTE 1 - (Continued)**

2. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**Fund Financial Statements:**

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned or Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

**j. Application of Net Assets:**

It is the School District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**k. Fund Balance Classification Policies and Procedures:**

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the School District classifies governmental fund balances as follows:

Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the School Board, Superintendent, or Business Manager.

Unassigned - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The School District did not have any fund balance in nonspendable form.

The School District uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

**HERREID SCHOOL DISTRICT NO. 10-1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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**NOTE 1 - (Continued)**

The Government does not have a formal minimum fund balance policy.

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Capital Outlay Fund	Property Taxes
Special Education Fund	Property Taxes and Grants

**NOTE 2 - VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS**

The School District is prohibited by statute from spending in excess of appropriated amounts at the fund level. As of June 30, 2011, the Food Service Fund had significant overdrafts of the expenditures compared to appropriations in the amount of \$4,272. The Governing Board plans to monitor expenditures more closely to prevent these violations in the future.

**NOTE 3 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK**

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

**Deposits** - The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

**Investments** - In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

**Credit Risk** - State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices.

As of June 30, 2011, all of the School District's investments were in certificates of deposit.

**Concentration of Credit Risk** - The School District places no limit on the amount that may be invested in any one issuer. All of the School District's investments are in certificates of deposit with the Campbell County Bank.

**Interest Rate Risk** - The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**HERREID SCHOOL DISTRICT NO. 10-1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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**NOTE 3 - (Continued)**

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit interest income from the General Fund and Special Education Fund pooled account to the General Fund. All other funds have their own accounts with interest being credited to that fund. Certificates of deposit interest income is credited to the fund making the investment.

**NOTE 4 - RESTRICTED CASH AND INVESTMENTS**

Assets restricted to use for Athletics, Music, and Veteran's Memorial through segregation of balances in separate accounts totals \$16,873 for the year ended June 30, 2011.

**NOTE 5 - RECEIVABLES AND PAYABLES**

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year. No allowances for estimated uncollectibles have been determined to be necessary.

**NOTE 6 - INVENTORY**

Inventory held for consumption is stated at cost. Inventory for resale is stated at the lower of cost or market. The cost valuation method is first-in, first-out (FIFO). Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

In the government-wide financial statements, and in the enterprise fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

No material inventories were on hand as of June 30, 2011, in the governmental funds.

**NOTE 7 - PROPERTY TAXES**

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, and become due and payable as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the School District's taxes and remits them to the School District.

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore are not susceptible to accrual has been reported as deferred revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period".

**NOTE 8 - CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2011, is as follows:

**HERREID SCHOOL DISTRICT NO. 10-1****NOTES TO THE FINANCIAL STATEMENTS****JUNE 30, 2011****NOTE 8 - (Continued)****Primary Government**

	<u>Balance 7/1/2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 6/30/2011</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	<u>\$ 5,464</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,464</u>
Capital assets, being depreciated:				
Improvements	109,574	-	-	109,574
Buildings	1,173,296	3,839	-	1,177,135
Machinery and equipment	<u>474,059</u>	<u>58,984</u>	<u>-</u>	<u>533,043</u>
Total, being depreciated	<u>1,756,929</u>	<u>62,823</u>	<u>-</u>	<u>1,819,752</u>
Less accumulated depreciation for:				
Improvements	79,746	1,248	-	80,994
Buildings	575,224	27,055	-	602,279
Machinery and equipment	<u>284,355</u>	<u>27,107</u>	<u>-</u>	<u>311,462</u>
Total accumulated depreciation	<u>939,325</u>	<u>55,410</u>	<u>-</u>	<u>994,735</u>
Total capital assets, being depreciated, net	<u>817,604</u>	<u>7,413</u>	<u>-</u>	<u>825,017</u>
Governmental activity capital assets, net	<u>\$ 823,068</u>	<u>\$ 7,413</u>	<u>\$ -</u>	<u>\$ 830,481</u>

Depreciation expense was charged to functions as follows:

**Governmental Activities:**

Instruction	\$ 31,660
Support Services	22,559
Cocurricular Activities	<u>1,191</u>
Total depreciation expense-governmental activities	<u>\$ 55,410</u>

**HERREID SCHOOL DISTRICT NO. 10-1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 8 - (Continued)**

	<u>Balance 7/1/2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 6/30/2011</u>
Business-type activities:				
Capital assets, being depreciated:				
Machinery and equipment	\$ 15,816	\$ -	\$ -	\$ 15,816
Total, being depreciated	<u>15,816</u>	<u>-</u>	<u>-</u>	<u>15,816</u>
Less accumulated depreciation for:				
Machinery and equipment	12,956	240	-	13,196
Total accumulated depreciation	<u>12,956</u>	<u>240</u>	<u>-</u>	<u>13,196</u>
Total capital assets, being depreciated, net	<u>2,860</u>	<u>(240)</u>	<u>-</u>	<u>2,620</u>
Business-type activity capital assets, net	<u>\$ 2,860</u>	<u>\$ (240)</u>	<u>\$ -</u>	<u>\$ 2,620</u>

Depreciation expense was charged to functions as follows:

**Business-Type Activities:**

Food Service	<u>\$ 240</u>
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**NOTE 9 - LONG-TERM LIABILITIES**

A summary of the changes in long-term liabilities for the year ended June 30, 2011, is as follows:

**PRIMARY GOVERNMENT**

**Governmental Activities**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated Absences	\$ 4,660	\$ 4,660	\$ 4,660	\$ 4,660	\$ 4,660

Compensated absences for governmental activities typically have been liquidated from the General Fund.

Liabilities payable at June 30, 2011, are comprised of the following:

**HERREID SCHOOL DISTRICT NO. 10-1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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**NOTE 9 - (Continued)**

**PRIMARY GOVERNMENT**

**Governmental Activities:**

**Compensated Absences:**

Payable from the General Fund	<u>\$ 4,660</u>
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**NOTE 10 - OPERATING LEASES**

The School District is leasing two Canon copiers from Best Business Products, Inc. The Capital Outlay Fund is making the lease payments. The lease is for 60 months with monthly payments of \$586 starting September 23, 2008.

The following are the minimum payments required for existing operating leases:

<u>Year</u>	<u>Capital Outlay Fund</u>
2012	\$ 7,032
2013	7,032
2014	<u>2,330</u>
Total	<u>\$ 16,394</u>

**NOTE 11 - RESTRICTED NET ASSETS**

Restricted net assets for the fiscal year ended June 30, 2011, were as follows:

<u>Purpose</u>	<u>Restricted By</u>	<u>Amount</u>
Major Funds:		
Capital Outlay Purposes	Law	\$ 336,141
Special Education Purposes	Law	6,255
Food Service Purposes	Federal Regulations	13,743
Other Purposes	Outside Sources	<u>16,873</u>
Total Restricted Net Assets		<u>\$ 373,012</u>

**NOTE 12 - INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2011, were as follows:

**HERREID SCHOOL DISTRICT NO. 10-1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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**NOTE 12 - (Continued)**

	<u>Transfers to:</u>
	Business-Type Activities
<u>Transfers from:</u>	<u>Food Service Fund</u>
Major Funds:	
General Fund	\$ <u>10,277</u>

The purpose of the interfund transfer was to eliminate the negative equity in the Food Service Fund.

**NOTE 13 - RETIREMENT PLAN**

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$37,779, \$41,906 and \$44,456, respectively, equal to the required contributions each year.

**NOTE 14 - JOINT VENTURES**

The School District participates in the joint venture known as Oahe Special Education Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education services to the member school districts.

The members of the co-op and their relative percentage participation are as follows:

Bowdle School District No. 22-1	14.29%
Edmunds Central School District No. 22-5	14.29%
Eureka School District No. 44-1	14.29%
Herreid School District No. 10-1	14.29%
Hoven School District No. 53-2	14.28%
Selby Area School District No. 62-5	14.28%
Smee School District No. 15-3	14.28%

The co-op's governing board is composed of one representative from each member school district, who is a school board member. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget

**HERREID SCHOOL DISTRICT NO. 10-1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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**NOTE 14 - (Continued)**

The School District retains no equity in the net assets of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from Oahe Special Education Cooperative.

At June 30, 2011, this joint venture had total assets of \$346,353, total liabilities of \$119,514 and net assets of \$226,839.

**NOTE 15 - LITIGATION**

At June 30, 2011, the School District was not involved in any litigation.

**NOTE 16 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2011, the School District managed its risks as follows:

**Employee Health Insurance:**

The School District purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

**Liability Insurance:**

The School District purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

**Worker's Compensation:**

The School District purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

**Unemployment Benefits:**

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended June 30, 2011, no claims were filed for unemployment benefits. At June 30, 2011, no claims had been filed or were outstanding. It is not anticipated that any claims for unemployment benefits will be filed in the next fiscal year.

**NOTE 17 - SUBSEQUENT EVENTS**

Management has evaluated whether any subsequent events have occurred through December 16, 2011, the date on which the financial statements were available to be issued. Management has determined there are none.

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
School administration:				
Office of the principal	7,800	7,800	7,732	68
Other	8,100	8,100	7,128	972
Business:				
Fiscal services	42,818	42,818	41,102	1,716
Operation and maintenance of plant	166,230	166,230	111,899	54,331
Pupil transportation	88,565	88,565	78,663	9,902
Cocurricular Activities:				
Male activities	17,160	17,160	16,270	890
Female activities	15,595	15,595	11,648	3,947
Combined activities	26,860	26,860	25,579	1,281
Contingencies	30,000	30,000		
Amount transferred		-		30,000
TOTAL EXPENDITURES	<u>1,207,273</u>	<u>1,210,023</u>	<u>1,056,406</u>	<u>153,617</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(59,163)</u>	<u>(61,913)</u>	<u>94,560</u>	<u>156,473</u>
OTHER FINANCING USES:				
Transfers out	<u>(15,000)</u>	<u>(15,000)</u>	<u>(10,277)</u>	<u>4,723</u>
TOTAL OTHER FINANCING USES	<u>(15,000)</u>	<u>(15,000)</u>	<u>(10,277)</u>	<u>4,723</u>
NET CHANGE IN FUND BALANCES	<u>(74,163)</u>	<u>(76,913)</u>	<u>84,283</u>	<u>161,196</u>
FUND BALANCE - BEGINNING	<u>175,843</u>	<u>175,843</u>	<u>175,843</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 101,680</u>	<u>\$ 98,930</u>	<u>\$ 260,126</u>	<u>\$ 161,196</u>

**HERREID SCHOOL DISTRICT NO. 10-1**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - CAPITAL OUTLAY FUND - BUDGETARY BASIS**  
**YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Revenue from Local Sources:				
Taxes:				
Ad valorem taxes	\$ 37,070	\$ 37,070	\$ 38,879	\$ 1,809
Prior year's ad valorem taxes	100	100	4	(96)
Penalties and interest on taxes	100	100	86	(14)
Earnings on investments and deposits	4,500	4,500	4,004	(496)
Revenue from Federal Sources:				
Grants-in-aid:				
Unrestricted grants-in-aid received directly from federal government	-	-	1,912	1,912
<b>TOTAL REVENUE</b>	<b>41,770</b>	<b>41,770</b>	<b>44,885</b>	<b>3,115</b>
<b>EXPENDITURES:</b>				
Instruction:				
Regular programs:				
Elementary	11,350	11,350	4,494	6,856
High school	11,350	11,350	4,694	6,656
Support Services:				
Business:				
Facilities acquisition and construction	65,000	65,000	57,889	7,111
Pupil transportation	81,000	81,000	53,340	27,660
Cocurricular Activities:				
Combined activities	11,000	11,000	4,858	6,142
<b>TOTAL EXPENDITURES</b>	<b>179,700</b>	<b>179,700</b>	<b>125,275</b>	<b>54,425</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(137,930)</b>	<b>(137,930)</b>	<b>(80,390)</b>	<b>57,540</b>
<b>FUND BALANCE - BEGINNING</b>	<b>416,468</b>	<b>416,468</b>	<b>416,468</b>	<b>-</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 278,538</b>	<b>\$ 278,538</b>	<b>\$ 336,078</b>	<b>\$ 57,540</b>

**HERREID SCHOOL DISTRICT NO. 10-1**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - SPECIAL EDUCATION FUND - BUDGETARY BASIS**  
**YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Revenue from Local Sources:				
Taxes:				
Ad valorem taxes	\$ 103,795	\$ 103,795	\$ 108,848	\$ 5,053
Prior year's ad valorem taxes	125	125	11	(114)
Penalties and interest on taxes	250	250	244	(6)
Other revenue from local sources:				
Charges for services	-	-	1,460	1,460
Revenue from State Sources:				
Grants-in-aid:				
Restricted grants-in-aid	203,907	203,907	170,727	(33,180)
Revenue from Federal Sources:				
Grants-in-aid:				
Restricted grants-in-aid received from federal government through the state	29,948	29,948	29,948	-
<b>TOTAL REVENUE</b>	<b>338,025</b>	<b>338,025</b>	<b>311,238</b>	<b>(26,787)</b>
<b>EXPENDITURES:</b>				
Instruction:				
Special programs:				
Programs for special education	195,025	195,025	187,846	7,179
Support Services:				
Pupils:				
Psychological	7,500	7,500	6,550	950
Speech pathology	33,000	33,000	30,825	2,175
Student therapy services	77,500	77,500	53,507	23,993
Special education:				
Administrative costs	25,000	25,000	22,730	2,270
<b>TOTAL EXPENDITURES</b>	<b>338,025</b>	<b>338,025</b>	<b>301,458</b>	<b>36,567</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>9,780</b>	<b>9,780</b>
<b>FUND BALANCE - BEGINNING</b>	<b>(3,674)</b>	<b>(3,674)</b>	<b>(3,674)</b>	<b>-</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ (3,674)</b>	<b>\$ (3,674)</b>	<b>\$ 6,106</b>	<b>\$ 9,780</b>

**HERREID SCHOOL DISTRICT NO. 10-1**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A**  
**SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND**  
**AND FOR EACH MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET**  
**JUNE 30, 2011**

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**NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING**

The School District followed these procedures in establishing the budgetary data reflected in the schedules:

1. Prior to the first regular board meeting in May of each year the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the school board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the school board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
11. Budgets for the General Fund and each major Special Revenue Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**NOTE 2 - USGAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES**

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a school bus would be reported as an expenditure of the Support Services-Business/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.